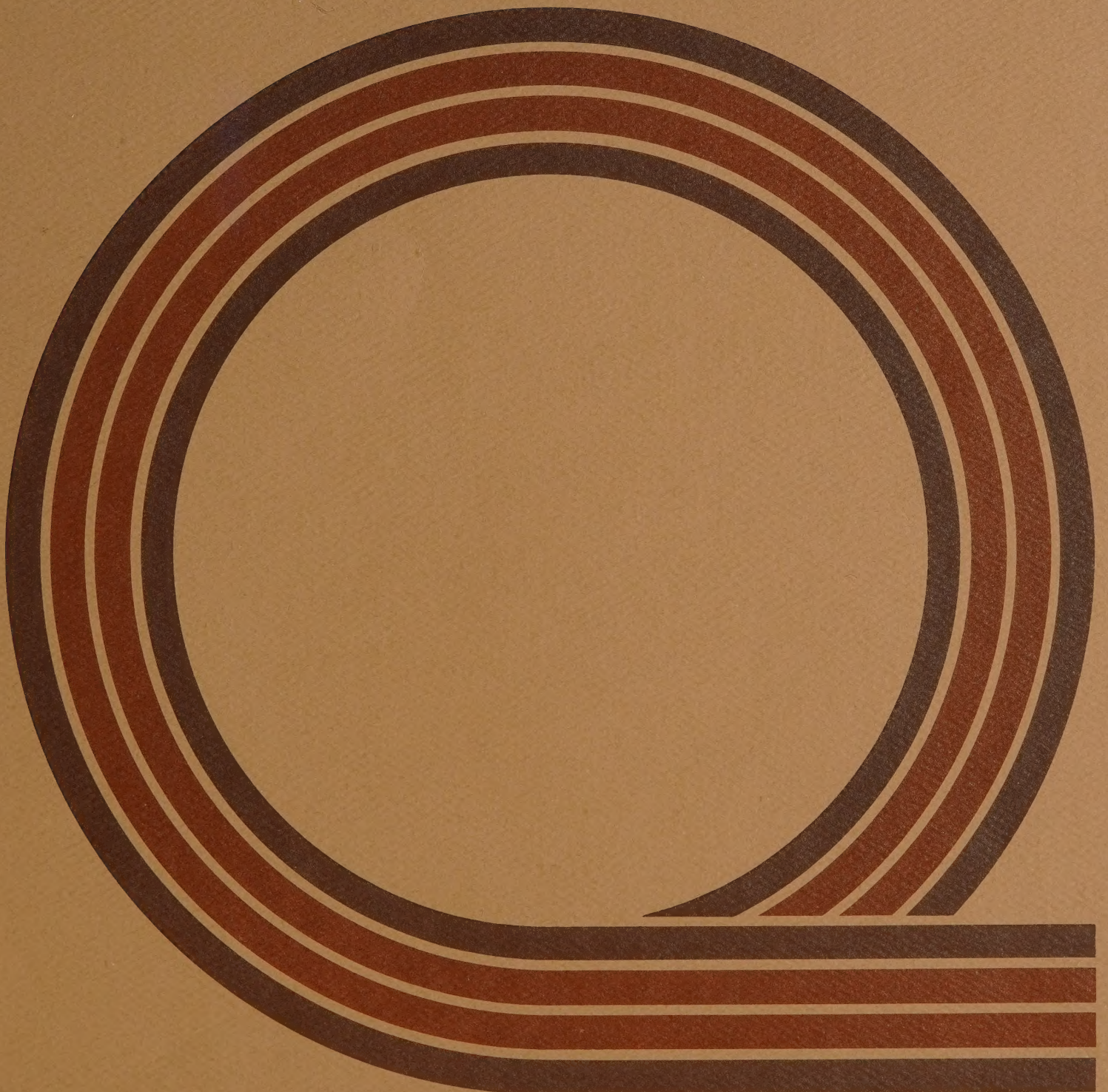


AR33



Corporate Data

Directors

James K.B. Booth
Toronto, Ontario (Canada)
Derry, Michener & Booth

Robert P. Hewitt
Perth, Western Australia
Cultus Pacific N.L.

Charles E. Michener
Toronto, Ontario (Canada)
Derry, Michener & Booth

Paul G. Naughton
Floreat Park, Western Australia
Cultus Pacific N.L.

Christopher K.G. Rowe
Perth, Western Australia
Cultus Pacific N.L.

Victor M. Seabrook
Toronto, Ontario (Canada)
Seabrook & Associates

David W.H. Tupper
Vancouver, B.C. (Canada)
Bull, Housser & Tupper

Officers

James K.B. Booth
President

Robert P. Hewitt
Vice-President

Victor M. Seabrook
Secretary-Treasurer

Marjory J.D. Williamson
Assistant-Secretary

Subsidiaries

Q.E.R. Inc.
Wilmington, Delaware (U.S.A.)

Offices

Head Office
Suite 2302
The Simpson Tower
401 Bay Street
Toronto, Ontario
M5H 2Y4
(416) 368-4636
Telex: Minconsult 06 23686

Registered Office
3000 Royal Centre
1055 West Georgia Street
Vancouver, B.C.
V6E 3R3
(604) 687-6575

Bankers

The Bank of Nova Scotia
Toronto, Ontario

Registrar & Transfer Agents

Montreal Trust Company
Toronto, Ontario

Montreal Trust Company
Vancouver, B.C.

Legal Counsel

Seabrook & Associates
Toronto, Ontario

Bull, Housser & Tupper
Vancouver, B.C.

Auditors

Coopers & Lybrand
Toronto, Ontario

Stock Exchange

The Toronto Stock Exchange
Ticker Symbol: QRT

Report to Shareholders

On behalf of the Board of Directors, I am pleased to submit your Company's Annual Report for the year ended December 31, 1980. This is the first annual report to shareholders since the change in management in July 1980 and the change in name of the Company from International Balfour Resources Limited to Quartet Energy Resources Ltd. Subsequent to the Company's year-end, arrangements were made to list the shares of Quartet for trading on the T.S.E., instead of the V.S.E., in recognition of the change in the geographical distribution of the shares in the Company.

Financial

As a result of the sale of its interest in the Crockett County gas wells and leases to Canadian Natural Resources Limited for U.S.\$2 million and the receipt of \$1,952,000 through the sale of treasury shares to Cultus Pacific N.L., your Company's financial position improved from a deficiency of \$831,112 at December 31, 1979 to a working capital of \$3,513,826 at December 31, 1980. These fundamental changes in your Company's finances are explained more fully in the notes which accompany the financial statements.

Advantage was taken of the prevailing high interest rates, during the year under review, resulting in income of \$461,569 to offset expenditures of \$1,236,713 on exploration and administration.

Exploration and Development

UNITED STATES

Early in the year under review, the Company incorporated a wholly-owned U.S. subsidiary, Q.E.R. Inc., in Delaware, and redirected a major proportion of its efforts and expenditures to exploration and development in the United States which offers a ready market, at fair prices, for any oil and gas found and developed by the Company.

The main thrust of your Company's efforts lies in its equal participation with Cultus Pacific and Dynamar Energy Resources in the TKA Exploration Joint Venture which was formed to carry out geological research and acquire drilling leases along the trends of the established oil and gas fields in the Gulf States of Texas and Louisiana. The Joint Venture has a well-equipped office in Austin, Texas and technical direction is provided by the exclusive services of Turk, Kehle and Associates, a small

group of highly qualified petroleum explorationists and engineers with many years of experience in oil and gas exploration and development in the southern United States. By year-end, the joint venture had obtained leases on more than 6,000 acres in Texas, where it is anticipated 20 or more wells will be drilled in 1981 including a 14,000 ft. well on a major structural closure delineated by a recently completed seismic survey on the 3,200-acre Moglia and Malo Sueno properties.

The Odyssey 80 #1 drilling fund successfully completed seven oil wells and seven gas wells during 1980 and it was therefore decided that the Company should extend its participation to include the drilling of up to 41 new development wells during 1981.

Your Company also participated in joint ventures with several other companies in programmes of development drilling for shallow oil on the 1,300-acre Longton lease in Kansas and the 1,200-acre Cottingim Ranch in Oklahoma. The first stage drilling of test wells on both these properties has been completed and results of test pumping will be studied before embarking on further drilling.

In summary, in the TKA and Odyssey programmes, eight oil wells and seven gas wells, in which the Company holds varying interests, had been successfully completed by year-end and should begin producing in 1981. In addition, 25 shallow oil development wells had been completed on the Cottingim and Longton leases and pumping tests are in progress; preliminary results on these two properties, however, have provided only modest encouragement to date.

CANADA

In Canada, the Company negotiated an option to purchase the Hunter gold property in northwestern British Columbia and subsequently farmed out half its interest to Dejour Mines Limited in return for a work commitment from Dejour. By year-end, the old workings on this high-grade gold property had been dewatered, mapped and sampled. Several very high-grade but narrow sections of vein were identified. However, following receipt of a full report of the work in December it was decided that the potential tonnage did not meet our minimum requirements for underground mining and the option has been relinquished.

Negotiations were also started towards the end of 1980 to farm out the Magno and Jean claims covering our

silver prospect near Cassiar, northern British Columbia, to a third party with operations in the same area; the subsequent fall in silver prices has delayed the completion of these negotiations.

NEW ZEALAND

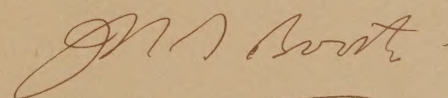
Outside North America, we are pleased to report that Quartet now holds a 20% interest in a joint venture syndicate, headed by Cultus Pacific N.L., which has been successful in obtaining a petroleum prospecting licence covering 7 550 sq. km., considered to have good potential for oil, located off-shore from Karamea on the west coast of the South Island of New Zealand. The agreed work programme calls for seismic surveying and at least one exploratory well to be drilled within the next three years at an estimated minimum cost of \$9 million (Australian); Quartet's share of the first year programme is estimated to be U.S.\$240,000.

Outlook for 1981

It is anticipated that expenditures during 1981 on the projects in which the Company is already involved will probably be in excess of \$1.5 million while revenue from funds invested should be in the order of \$450,000. Although your Company is in a good financial position to meet these expenditures it is management's intention to make every effort to strengthen our financial base and increase the exploration and investment programme by farming out some of the higher-risk deep drilling projects and bringing in drilling funds on terms advantageous to the Company. Your directors are also actively considering raising additional equity capital through a new U.S. subsidiary of Quartet.

May we take this opportunity to extend our appreciation to our shareholders for their support and loyalty and to thank our associates and employees for their efforts during the past year.

On behalf of the Board of Directors,



J. K. B. Booth
President

Review of Operations

Odyssey 80 #1 Drilling Programme

Texas, Louisiana

Q.E.R. Inc. (QER) holds a 4% working interest in a U.S.\$5 million land acquisition and drilling programme, which began April 1980, and in a proposed \$5 million follow-up development drilling programme of offset development wells around discovery wells to begin in 1981. QER committed \$200,000 for the initial programme and \$40,000 for the development programme; the balance of development funds are expected to be derived from revenue from production. Drilling, to date, has resulted in the successful completion of seven oil wells and seven gas wells which are now producing or awaiting hook-up and 15 dry holes.

New development drilling calls for 36 oil wells and five gas wells to be drilled and completed in 1981. QER's net revenue interest in these wells ranges from 0.388% to 1.05% after payout.

Longton Property

Elk County, Kansas

QER holds a 5.56% working interest in this 1,300-acre property and has spent U.S.\$83,387 as its share of the completion costs on the six existing oil wells and the first stage drilling of fifteen 1,700 ft. development wells to earn the joint venture a 40% working interest. The joint venture can earn a 51% net interest by drilling a total of 50 wells in three stages.

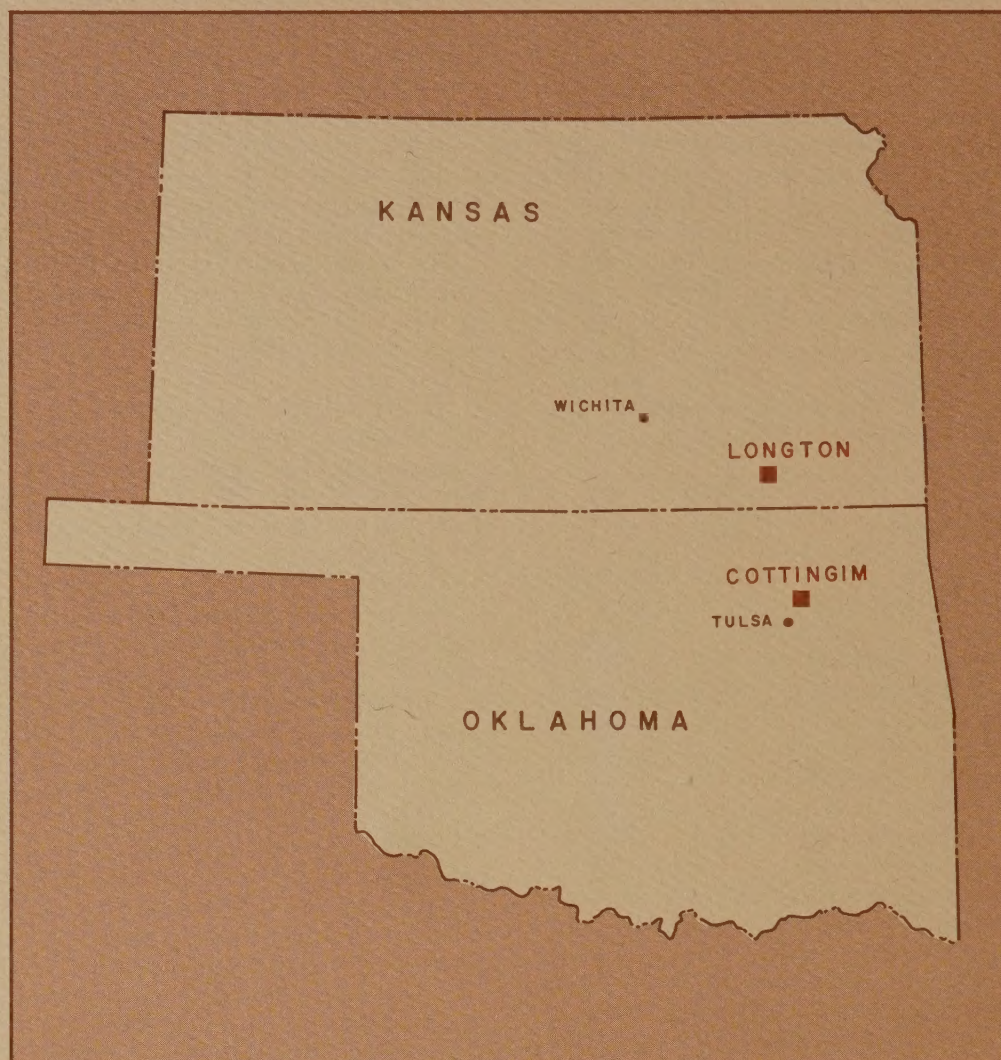
At year-end, the first stage wells were under test and the property had a small production of approximately 25 b.o.p.d. The decision to proceed further will depend on evaluation of this first phase. The joint venture partners include Canada Northwest Lands, Cee-Why Texas, Carter Oil & Gas, Reed Resources and the Slattery J.V.

Cottingim Ranch

Collinsville, Oklahoma

QER has subscribed U.S.\$155,662, in a joint venture with Dynamar as operator, to earn a 5.417% working interest in this 1,200-acre property by drilling 10 shallow oil development wells and recompleting five earlier prospect wells. The other joint venture partners are Tripet and Dejour.

Several sands are being tested and the decision to proceed to the next stage awaits the evaluation of results of the first stage. Dynamar reports that modest



production of perhaps 200 b.o.p.d. could be anticipated from the drilling of development wells in the south portion of this property.

TKA Exploration

Texas

QER holds a 33⅓% working interest to earn a 25% revenue interest in this exploration syndicate based in Austin, Texas. TKA has now acquired several oil and gas prospects, aggregating more than 6,000 acres, in the Gulf coast area of Texas and is negotiating lease agreements on several new properties. One successful oil well, the Nancy J, in Burleson County was completed in the Austin Chalk and two dry holes were drilled in other areas.

Drilling sites have been chosen on the following properties:

Moglia and Malo Sueno Properties Wells and Duval Counties, Texas

The net interest of TKA in the aggregate 3,200 acres varies from 74% to 80%. TKA has farmed out a seismic option plus a commitment to drill a 14,000 ft. Wilcox Sand well and the right to drill a 7,000 ft. Queen City test to a major oil company. TKA can back-in to a 25% working interest after payout in a Wilcox discovery well and in all future Wilcox wells and will earn 62.5% of the working interest revenue in any Queen City well for payment of 50% of the cost to casing point.

The Wilcox deep test is scheduled for August and cost of a completed hole is estimated at around \$2.5 million.

Seadrift Property

Calhoun County, Texas

TKA's net interest in this 1,600-acre property is 75%. Two 10,000 ft. Frio Sand tests have been farmed out to a third party and QER is carried for 1.67% to casing point in each well and will earn an additional 0.83% interest for a total 2.5% interest.

Drilling is expected to begin late summer 1981.

Nancy J Well

Burleson County, Texas

TKA holds a 78% net interest in this well. QER holds an 11 $\frac{2}{3}$ % working interest to earn 15% of the revenue to the working interest in this recompletion of an 8,000 ft. Austin Chalk well. The well was re-entered, squeezed and acidized. Swabbing has confirmed a potentially commercial oil well and the well is being equipped for pumping.

Luling Area

Caldwell County, Texas

TKA holds net interests ranging from 75% to 80% in several small leases, totalling approximately 200 acres, in this area along the known trend of production in the Austin Chalk. Three 2,700 ft. wells are scheduled for drilling starting April 1981 to offset producing Austin Chalk wells on adjoining properties. Successful completions will result in the drilling of five to 15 additional locations in 1981. QER will pay 25% to earn 22.91% of the revenue to the working interest.

Phillips #1 Well

Crockett County, Texas

QER's share of gas production from the Phillips #1 gas well is now providing a modest revenue of approximately U.S.\$18,000 per annum.

Other Areas

Hunter Gold Property, British Columbia

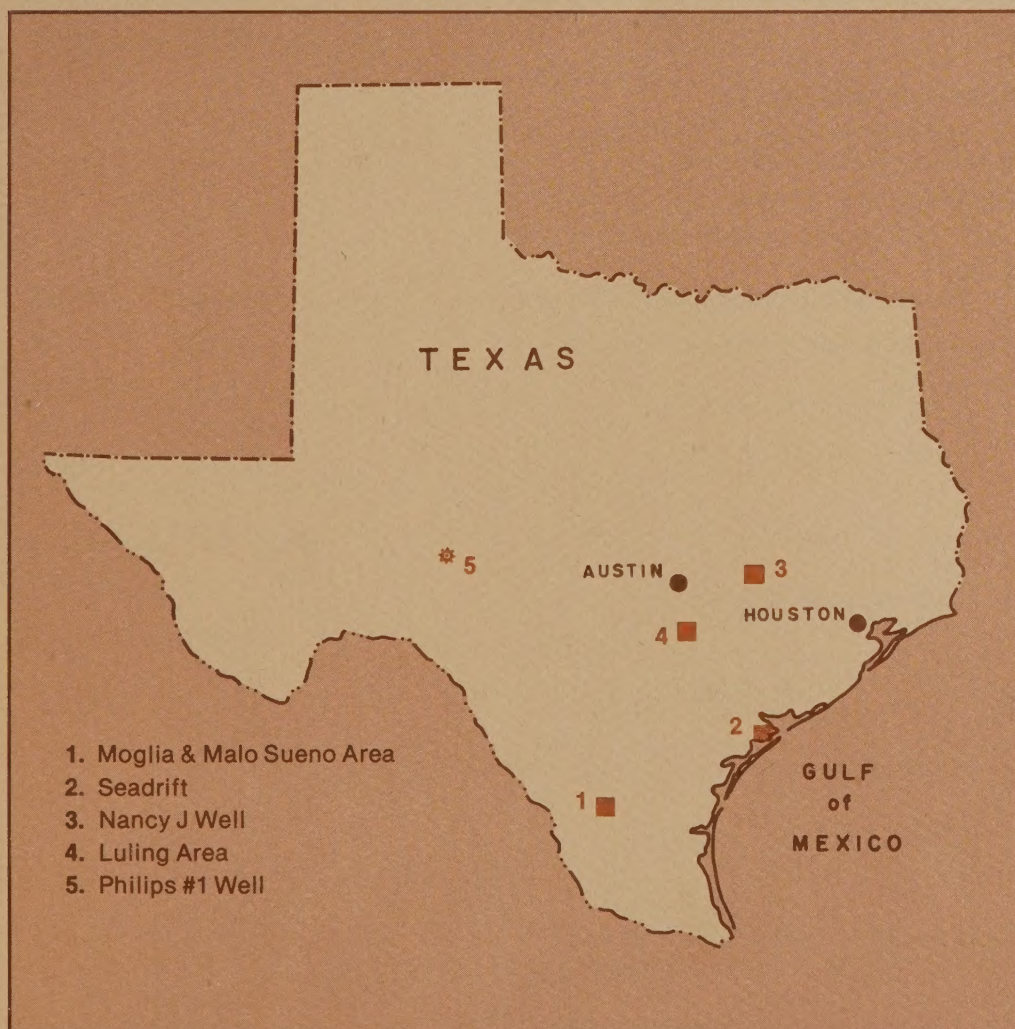
In Canada, Quartet decided to relinquish its option on the Hunter gold property following the receipt, in December, of the report from its consultants on the dewatering and sampling of the underground workings. The work confirmed the existence of strong vein structures containing small lenses of high-grade gold mineralization but the widths and potential tonnage did not meet our minimum targets for a profitable underground mining operation in this location.

Magno and Jean Claims, British Columbia

The negotiations which began in November to farm out the Magno and Jean claims to local mining operators have since stalled due to the decline in the price of silver.

New Zealand

In November, Quartet was successful in acquiring a 20% interest in a joint venture syndicate headed by Cultus Pacific N.L. which has been granted a petroleum prospecting licence covering an area of 7 550 sq. km. located offshore from the town of Karamea on the west coast of the South Island of New Zealand. Under the terms of the agreed work programme the licensees must complete a minimum of 1 200 line km. of seismic survey and the drilling of one exploratory well of 2 000 to 3 000 m. depth within three years to retain the licence. Estimated cost of this minimum three-year programme is approximately \$9 million (Australian).



QUARTET ENERGY RESOURCES LTD.

Consolidated Balance Sheet

as at December 31, 1980

Assets

Current Assets

Cash and short-term deposits

Accounts receivable

Prepaid expenses

Interest in Oil and Gas Properties (note 7)

Interest in Mineral Claims and Properties (note 7)

Deferred Exploration and Development Expenditures

1980
\$

1979
\$

3,530,030

36,532

—

3,566,562

658,698

29,501

77,736

4,332,497

—

2,371

15,000

17,371

738,825

12,002

172,630

940,828

Liabilities

Current Liabilities

Bank indebtedness

Accounts payable and accrued liabilities

Loan from directors

Deferred Income Taxes

1980
\$

1979
\$

—

52,736

—

52,736

310,000

362,736

46,892

351,591

450,000

848,483

—

848,483

Shareholders' Equity

Share Capital (notes 4, 5 and 6)

Authorized—

7,500,000 common shares without par value

Issued—

1,674,137 (1979—865,382) common shares

Contributed Surplus— premium on shares

Deficit

4,750,928

38,500

(819,667)

3,969,761

4,332,497

2,047,931

38,500

(1,994,086)

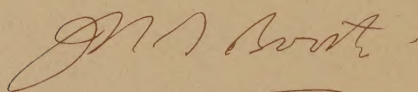
92,345

940,828

Approved on Behalf of the Board



V.M. Seabrook, Director



J.K.B. Booth, Director

See Notes to Financial Statements

QUARTET ENERGY RESOURCES LTD.

Consolidated Statement of Earnings and Deficit

For the year ended
December 31, 1980

	1980 \$	1979 \$
Revenue		
Gain on sale of interest in oil and gas property (note 7)	2,056,771	—
Oil and gas	13,604	9,200
Interest	461,569	—
Sundry	11,080	—
	<u>2,543,024</u>	<u>9,200</u>
Expenses		
Administrative, legal and general	305,341	224,627
Write-off of interest in oil and gas properties	637,870	218,266
Write-off of deferred exploration expenditures and interest in mineral claims and properties	115,394	—
	<u>1,058,605</u>	<u>442,893</u>
Earnings (Loss) Before the Following Provision for Income Taxes	<u>1,484,419</u>	<u>(433,693)</u>
	425,000	—
Earnings (Loss) Before Extraordinary Item	<u>1,059,419</u>	<u>(433,693)</u>
Extraordinary Item		
Income tax reduction on application of prior years' losses brought forward	115,000	—
Net Earnings (Loss) for the Year	<u>1,174,419</u>	<u>(433,693)</u>
Deficit— Beginning of Year	<u>1,994,086</u>	<u>1,560,393</u>
Deficit— End of Year	<u>819,667</u>	<u>1,994,086</u>
Earnings (Loss) per Share Before Extraordinary Item (note 8)	<u>.73</u>	<u>(.50)</u>
Earnings (Loss) per Share After Extraordinary Item (note 8)	<u>.80</u>	<u>(.50)</u>

See Notes to Financial Statements

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Quartet Energy Resources Ltd. as at December 31, 1980 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

March 31, 1981

**Consolidated
Statement of
Changes in
Financial
Position**

For the year ended
December 31, 1980

	1980 \$	1979 \$
Source of Working Capital		
Provided from operations—		
Earnings before extraordinary item	1,059,419	—
Add: Items not requiring an outlay of working capital—		
Gain on sale of interest in oil and gas property	(2,056,771)	—
Write-off of interest in oil and gas properties	637,870	—
Write-off of deferred exploration expenditures and interest in mineral claims and properties	115,394	—
Deferred income taxes	310,000	—
	65,912	—
Proceeds on sale of interest in oil and gas properties	2,392,400	—
Income tax reduction on application of prior years' losses	115,000	—
Sale of fixed assets	—	200,000
Issue of common shares	2,702,997	110,926
	5,276,309	310,926
Use of Working Capital		
Used in operations—		
Loss for the year	—	433,693
Less: Item not requiring an outlay of working capital—		
Write-off of interest in oil and gas properties	—	218,266
	—	215,427
Expenditure on oil and gas properties	893,372	—
Expenditure on deferred exploration	12,999	—
Expenditure on mineral claims and properties	25,000	181,640
Loan from directors	—	450,000
	931,371	847,067
Increase (Decrease) in Working Capital	4,344,938	(536,141)
Working Capital Deficiency—Beginning of Year	(831,112)	(294,971)
Working Capital (Deficiency)—End of Year	3,513,826	(831,112)

See Notes to Financial Statements

Notes to Consolidated Financial Statements

For the year ended December 31, 1980

1. Significant Accounting Policies

(a) Administrative, legal and general expenditures

All administrative, legal and general expenditures excluding certain costs specifically related to the acquisition of mineral and oil and gas properties are charged against earnings when incurred.

(b) Deferred exploration and development expenditures, and interest in mineral claims and oil and gas properties

All exploration and development expenditures, and expenditures relating to mineral claims and oil and gas properties are recorded at cost and are deferred until the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are abandoned or sold at which time the deferred expenses are written off. Amortization has not been provided in these financial statements as there was no significant production in the year.

(c) Translation of foreign currencies

Current assets and liabilities are translated to Canadian currency at current rates of exchange. Non-current assets are translated to Canadian currency at the rate of exchange at the time of the transaction. Exchange gains or losses on translation of assets and liabilities are considered to be realized and are included in administrative, legal and general expenditures for the year.

(d) Basis of consolidation

The consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiary companies, Q.E.R. Inc. and IBR Resources Inc. The company's exploration activities are conducted mainly with others and these accounts reflect only the company's proportionate interest in such activities.

(e) Income taxes

The company follows the tax allocation method of accounting whereby the provision for income taxes is based upon income reported in the accounts.

2. Nature of Operations

The company is in the process of developing its mineral and oil and gas properties and has not yet determined whether certain of these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral and oil and gas properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the development, and upon future profitable production.

3. Change of Name

The company changed its name during the year from International Balfour Resources Ltd. to Quartet Energy Resources Ltd.

4. Share Capital—Authorized

By special resolution dated June 30, 1980, the shareholders approved a redesignation of the company's 2,500,000 authorized preference shares of \$2 par value into 2,500,000 common shares without par value. The authorized share capital consists of 7,500,000 common shares without par value.

5. Share Capital—Issued

	Number of shares	\$
Balance—December 31, 1979	865,382	2,047,931
Transactions for the year ended December 31, 1980—		
(a) 65,306 common shares in settlement of trade payable at \$3.70 per share	65,306	241,632
(b) 580,952 common shares issued for cash to Cultus Pacific N.L. at \$3.36 per share	580,952	1,952,000
(c) 149,997 common shares issued for cash on exercise of warrants at \$3.05 per share	149,997	457,490
(d) 12,500 common shares issued for cash on exercise of warrants at \$4.15 per share	12,500	51,875
Balance—December 31, 1980	1,674,137	4,750,928

In addition to the share options and warrants set out in note 6, the company is obligated at December 31, 1980 to issue 25,000 common shares at a price to be determined by the directors.

During the year 58,333 shares were issued to directors, 91,664 to past directors and 65,306 shares to a firm in which a director has an interest.

6. Share Capital—Options and Warrants

(a) The company has granted to a director options to purchase 16,500 common shares at a price of \$4.10 per share up to March 20, 1981 and \$4.60 per share from March 21, 1981 to March 20, 1982. A further 3,800 shares have been allocated by the board of directors for issue to the directors of the company on the same terms.

In addition, an option has been granted to a director of the company, in consideration of his services, to purchase 45,000 common shares of the company at a price of \$3.50 per share up to March 31, 1981 and, thereafter, with escalations of 25¢ per share over the next four years.

(b) The company has granted a non-transferable option to Cultus Pacific N.L. ("Cultus") to purchase 1,161,904 common shares at a price of \$3.93 up to February 18, 1981, with escalations of 25¢ per share in each of the following two years.

(c) The company has an obligation to issue 50,000 shares on exercise of options to purchase common shares at \$5.20 per share up to April 18, 1981 and \$5.70 per share to April 19, 1982.

(d) During the year the company issued as consideration for providing financing for a drilling programme, 558,561 three-year warrants to purchase common shares of the company. These warrants can be exercised at various times up to September 30, 1983, at prices ranging from \$4.05 to \$5.38. At December 31, 1980, 546,061 warrants were still outstanding.

(e) In 1979, the company issued as consideration for providing a loan to the company of U.S. \$100,000, three-year warrants to certain directors of the company enabling the holders of these warrants to purchase 10,000 common shares of the company at a price of \$4.20 per share up to March 26, 1981 and \$4.70 per share from March 27, 1981 to March 26, 1982.

7. Interest in Oil and Gas Properties and Mineral Claims and Properties

(a) During the year, the company assigned to Cultus one-third of its interest in Charley's Creek Field, Cabell County, West Virginia, U.S.A. together with certain interests in mineral claims. Charley's Creek Field is no longer being pursued by the company and the costs related to this field have been written off.

(b) The company sold its interests in drilling sites in the Phillips and Adams—Baggett Ranch Prospects, Crockett County, Texas for the sum of U.S. \$2,000,000 and a gain of \$2,056,771 was realized on this sale.

(c) A director of the company has a 2½ % net carried working interest, together with a right to purchase a further 2½ % working interest, in all property interests acquired by the company after April 30, 1980.

8. Earnings per Share

The fully diluted earnings per share are as follows:

	\$
(a) net earnings per share before extraordinary item	.49
(b) net earnings per share after extraordinary item	.53

For the purposes of calculating the dilution, it has been assumed that the company issued during the year 1,829,465 common shares in respect of its obligations to issue shares and on the exercise of share warrants and options and that the proceeds received therefrom were invested in short-term deposits and earned a rate of return of 15 per cent. The amount of imputed income after income taxes was approximately \$580,000.

9. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Notes

QUARTET ENERGY RESOURCES LTD.

Suite 2302, The Simpson Tower
401 Bay Street, Toronto, Canada M5H 2Y4

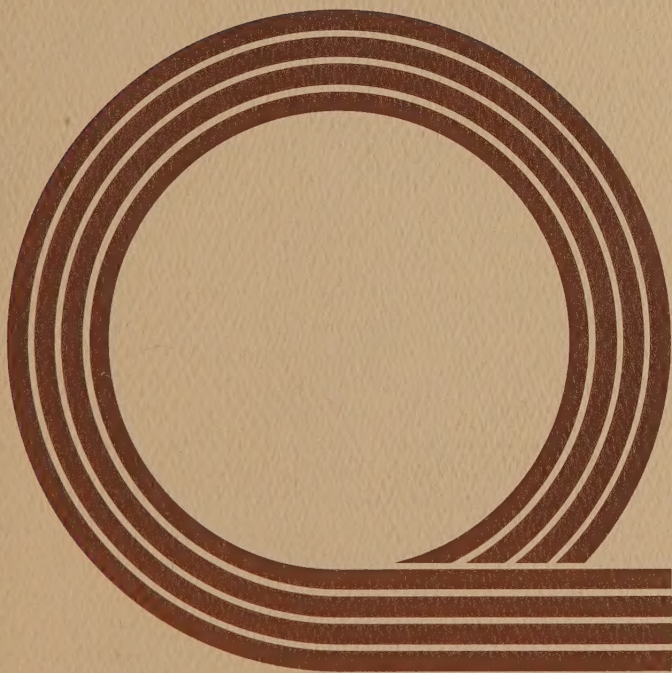
PRINTED IN CANADA

QUARTET

ENERGY RESOURCES LTD.

INTERIM REPORT

for the six months ended
June 30, 1981



To The Shareholders:

Your Directors are pleased to submit herewith the interim financial report for the Company for the six months ended June 30th, 1981, together with comparable figures for the same period in 1980.

New developments beyond those described in the review of operations in the annual report for 1980 include the following:

U.S.A.

As of June 30th, 1981 the TKA exploration joint venture, in which Quartet Energy Resources Ltd. holds a one-third interest, was dissolved and all of Quartet's interest in the various properties held in the TKA partnership are in process of transfer to a new U.S. corporation, Oiltex International Limited, together with the whole of the TKA technical organization, including personnel and the Austin office facilities etc. As of July 1st, Dr. Jan Turk became President of the new company and Dr. Ralph Kehle was appointed Vice-President of Oiltex and joined the Board of Quartet. As President of Quartet, J.K.B. Booth becomes Chairman of Oiltex and is joined on the Board by Messrs. Hewitt, Kehle and Seabrook representing Quartet's interest in the new company. It is proposed that all of Quartet's U.S. interests, and any future interests, will now be channelled through Oiltex which will become the operating company in the United States. In the initial stages Oiltex will be financed by means of loans from Quartet with the addition of a private placement to be followed at the appropriate time by a public underwriting in the United States.

The acquisition of the full-time services of Jan Turk and Ralph Kehle and the highly qualified TKA staff and office facilities, coupled with the proposed financing, will provide the sound technical and financial basis necessary for successful operations by Quartet in the United States oil and gas industry. As presently planned, it is anticipated that following completion of financing Quartet will hold in excess of a 30% interest in Oiltex International Limited.

At June 30th, Oiltex was negotiating contracts for the initial wells to be drilled on 5 leases in Texas. In addition, each of the 3 Luling area wells in the Austin Chalk was pumping oil at 8 to 13 BOPD whilst returning frac water, and preparations were being made to stimulate the Nancy J Austin Chalk oil well.

Australia

Quartet and Oiltex, as equal partners, have agreed to farm-in on the Vlaming Head Prospect on WA-110-P, a 400,000 acre permit in the Exmouth Basin off the

northwest coast of Australia. Together they will share a 5% interest in the permit by paying 10% of the estimated 3 to 5 million dollar cost of drilling the initial test well. Water depth is 300 metres and the proposed total depth of the well will be 2,000 metres.

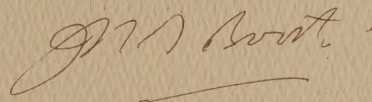
Canada Northwest (Australia) is the operator for a group of companies, including Cultus Pacific and Oakwood International, which has shot 780 km of seismic on this permit to delineate a 56 sq. km stratigraphic trap in the Upper Barrow Group Sand Unit. The potential of this trap is indicated by the presence of a thin oil column encountered on a small structural closure in the Wapet Hilda Number 1 Well which is some 1,100 m lower, structurally, than the Vlaming Head Prospect.

The operator expects to have a rig available to commence drilling in 1982.

New Zealand

Quartet has been informed by the operator, Cultus Pacific N.L., that the seismic re-interpretation of the Esso data over the 7,550 sq. km off-shore license, PPL38058, in which Quartet has a 20% interest, has now been completed. The seismic vessel is due to arrive in New Zealand waters towards the end of October to begin shooting the next phase of the detailed seismic grid.

On Behalf of the Board of Directors,



J. K. B. Booth
President

August 11, 1981

QUARTET ENERGY RESOURCES LTD.

Consolidated Statement of Earnings and Deficit

For the six months ended June 30, 1981
(unaudited)

	1981	1980
	\$	\$
Revenue		
Gain on sale of interest in oil & gas property	—	2,056,771
Oil and Gas	4,687	6,938
Interest	313,613	259,434
	<u>318,300</u>	<u>2,323,143</u>
Expenses		
Administrative, legal and general	125,395	229,310
Write-off of deferred exploration expenditures and interest in mineral claims and properties	43,533	—
	<u>168,928</u>	<u>229,310</u>
Net Earnings for the Period	<u>149,372</u>	<u>2,093,833</u>
Deficit—Beginning of Period	<u>819,667</u>	<u>1,994,086</u>
Retained Earnings (Deficit)—End of Period	<u>(670,295)</u>	<u>99,747</u>

QUARTET ENERGY RESOURCES LTD.

**Consolidated Statement of Changes
in Financial Position**For the six months ended June 30, 1981
(unaudited)

	1981	1980
	\$	\$
Source of Working Capital		
Provided from operations—		
Earnings for the period	149,372	2,093,833
Add: Items not requiring an outlay of working capital—		
Write-off of deferred exploration expenditures and interest in mineral claims and properties	43,533	—
Gain on sale of interest in oil and gas properties	—	(2,056,771)
	<u>192,905</u>	<u>37,062</u>
Proceeds on sale of interest in oil and gas properties	—	2,392,400
Issue of common shares	<u>322,830</u>	<u>2,651,122</u>
	<u>515,735</u>	<u>5,080,584</u>
Use of Working Capital		
Expenditures on oil and gas properties	402,205	464,249
Expenditures on deferred exploration	5,533	—
Deferred Income Taxes	20,072	—
	<u>427,810</u>	<u>464,249</u>
Increase in Working Capital	87,925	4,616,335
Working Capital (Deficiency)—Beginning of Period	<u>3,513,826</u>	<u>(831,112)</u>
Working Capital—End of Period	<u><u>3,601,751</u></u>	<u><u>3,785,223</u></u>

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